Atos Origin
Wednesday, 30th April 2008
12:00 Hrs UK time
Chaired by Philippe Germond

Philippe Germond

Good morning and welcome to all of you to our Q1 conference call. With me I have the Management Board, Wilbert Kieboom in charge of the operations and Eric Guilhou in charge of the group's support functions, and also Gilles Arditti in charge of the relations with the investors. So I'm going to cover in the first part of that presentation the slides you have on our website, and then we are going to open a Q&A session and you can address your questions through the web or directly by call.

So, if we follow the presentation, the first slide is the slide number four, which are the Q1 '08 highlights. The message is that we are growing. We have demonstrated that Atos Origin is capable of generating good strong and sustainable organic growth. In Q1 '08 the overall company, including one month of Italy and including the exchange activity of AEMS, reached €1.424 million of revenues with an organic growth of 5.3%. If we exclude Italy, and you will remember that we made the closing of disposal of Italy at the end of January and if we exclude AEMS exchange, which will be disposed effectively in the summer, the revenues are at €1,356 million and we generated an organic growth at 5.9%. Therefore organic growth is clearly above 5%. On top of that we are pleased to see that the commercial activity is strong. Our order intake is 11% higher than last year order intake. So it just demonstrates that it's not just a short term strong, good organic growth, but we consider it is sustainable because we have a good order intake during the first quarter of this year with a book to bill ratio slightly above one. The net debt went down at €304 million compared to €338 million at the end of last year . We will give you some more information about that later. The other message relates to transformation plan, the 303 plan is moving fast, and as efficient as possible, with good results in industrialisation, in global sourcing, in purchasing, and in managed operations global delivery, and we are currently implementing the strategy we announced mid of December 2007 on the distinctive offers.

On slide number five you have a list of deals we signed during the first quarter. This illustrates some successes in line with our strategy. I told you starting the second semester of last year that the priority is organic growth on top of the transformation programme. Organic growth is there, and we are adding new logos to our capital base. It's a mix of mainstream and distinctive offers. There are desktop services, infrastructure management, as well as application management contracts in Europe such as Alstom, a major Oil company in France, the British Ministry of Justice, major banks in Spain, several consulting contracts. New contracts on renewal for SAP practices and other sectors such as oil and gas, pharma or automotive, innovative projects like mobile ticketing for Go North East in the UK, successes in ING and Rabobank for payment offer. So payment is moving outside of France and Belgium. It's moving now in The Netherlands, as well as in the insurance consulting projects including a major one in the enterprise content management area for Alliance. It's a diversified additional customer base we are building, and some of these customers are managed globally. There are new clients for outsourcing in North America, thanks to a good collaboration between our US and our Dutch team working as one Atos Origin company with also a new German client in the health sector. Several contracts also in telecom sector in Mediterranean countries and Africa, and clearly our presence in China goes beyond the Olympics with new contracts. So first a significant extension of the ChemChina contract, but also new signatures in payment systems for banks of China. Clearly, we are benefiting from the leverage of our international geographical presence, and especially as I said before, in The Netherlands and in China.

On slide number seven we give you some precise information about the structure of our revenues. Just to be totally transparent and clear, we give you the statutory scope which does include Italy for one month in the first quarter, and AEMS exchange for three months, and you have the details line by line without Italy comparing ’08 to ’07, and without end AEMS exchange. Then the same comparison without AEMS Exchange is just to avoid any uncertainty about the perimeter. You have all the details, but even including Italy for one month and even including AEMS exchange which is going to be disposed during the summer, we have a growth which is above 5%. Without Italy, organic growth is at 5.5% and if we look forward the new perimeter once we have disposed AEMS exchange, it’s 5.9% organic growth. It’s a good strong growth. There is a currency effect which is due to the British Pound and on the US Dollar, in the range of €35 million negative.This performance in terms of growth has been reached despite one day less in the first quarter ’08 compared to the same period of last year slightly affecting the growth. So with the same number of days, probably our growth would have been slightly higher and clearly above 6%.

Slide number eight explains in another way the figures Q1 ’07 restated without Italy and AEMS Exchange, and Q1 ’08 without Italy and AEMS exchange, leading to the 5.9% organic growth.

Slide number nine shows a major change now in the company: organic growth is back to market rate. It’s not just taking a few months ago or a few quarters ago that we wanted to see some organic growth in the company. We took the right actions to generate organic growth investing in sales thanks to the savings we generated from some of the programmes in the 303 plan. So, investing in sales, investing in training, investing on a better definition of our portfolio of services, and clearly the results are coming. If you look at Q1 ’06, Q2 ’06 and the sequence of organic growth, we were never above 3% and we were even negative in Q3 ’06 with a really low growth during the second semester of ‘06, and also during the first semester of ‘07. We put the standard of growth of the company, of organic growth, at another level, at a new level, and Atos Origin is therefore back to the market growth.

On slide number 10 you have some additional details about the organic growth of the company, and especially comparing the organic growth in Q1 ’08 to the organic growth in Q1 ’06 and Q1 ‘07. We are more than doubling the organic growth.

So now we dig a little bit more in detail by service line. On slide 11 you have the revenues of the company by service line, on the left side of the slide you have the statutory scope with does include Italy and AEMS Exchange, and on the right side you have excluding Italy and AEMS Exchange. Therefore, you can really compare the two set of figures. By service line the revenue performance is mainly due to a good trend in system integration which continued to improve quarter after quarter and record a solid 7.2 organic growth in Q1 ‘08. And this is a very good sequence because in Q1 ’07 the organic growth was at 3.1, in Q2 ’07 4.7, in Q3 ’07 6.1, in Q4 ’07 7.3 and now 7.2. So, we have good, good momentum in system integration. Managed operations remains strong with 6.2 organic growth benefiting from the performance on year over year basis of Atos we aligned with a solid 10.4% organic growth to be compared with 5.1% organic growth in ’07, and a satisfactory 5.6% organic growth for managed operation businesses with long term contracts ramp up. On consulting the revenues also improved, despite the negative organic decrease which was limited to 3%. So we are decreasing but less than the previous quarters. And I consider that we should be back to a flat position during the second quarter and back to growth during the second semester which should lead us in consulting to be back to growth full year in ’08. So as a conclusion to this slide, we can say that the group is benefiting from its major service line, system integration, managed operations and well aligned at full extent in this first quarter of the year, and with a very positive balance. This situation is only impaired by consulting that is still struggling particularly in the UK where the new positioning of consulting with the other service lines takes time, as expected, to provide first significant results. The actions we are currently performing in the UK started in France about six months ago, and today in France we have doubled the organic growth in consulting during the first quarter of '08.

On the next slide, number 12 you can look at the performance by geographical area. I'm not going to repeat everything. I just want to summarise a few points.

- First France, in Q1 '08 revenues were at 7.5% organic growth including AEMS Exchange, 6.8% without AEMS Exchange. Consulting grew by 11%. So, growth is back in consulting in France. It does demonstrate that when you have a clear position in consulting, when you have strong synergies with the rest of the company, it does work, and this is a positive trend which is reinforced by the order intake. Managed operations achieved 9% organic growth with an increasing level of upselling business with existing customers, and system integration was up by 5.4%, mainly in the telecom and in the industry sectors. We have not seen for many quarters that level of growth in France.

- In the United Kingdom, organic growth was up 1.1% in the first quarter '08 affected by the performance of the AEMS Exchange business. Without that activity, so let’s say on the future scope, which is expected to be transferred to NYSE Euronext in the third quarter of ’08, the organic growth was 5.5%. This performance was reached with a 14.3% organic growth in managed operations confirming the full effect of the large contracts delivered last year, and good business fertilization on these contracts such as the Ministry of Justice, NHS in Scotland and NFUM. At the same time, new logos have been signed in both SI and MO.

- As expected in The Netherlands and as I announced a few months ago, the level of revenues was affected by the effect of the re-insourcing of desktop services to KPN and the extension of the outsourcing contract with KPN, signed for an additional three years. Excluding KPN Q1 '08 revenues in Netherlands grew by 5.4%, and we should see growth coming back in the Netherlands during the second half this year also with additional resources in SI, and when I talk about growth in the Netherlands in the second half, it does include the decrease in KPN. So, altogether Netherlands should have a positive growth full year "08.

- We can observe that we are almost at double digits growth in the other countries with significant increase of activity in Germany, thanks to Dresdner Bank but also from the telecom sector. I am very satisfied with the business evolution in countries like Spain, Belgium, Asia Pacific. Asia Pacific has a strong growth which is not based on off-shoring because we do not put offshoring revenue in India because it is a cost center so revenue is really based on Asia Pacific customers. The Mediterranean countries and Africa have also strong double digit growth. The decrease in the Americas comes from South America where last year we had €2 million of revenues coming from the Pan American Games. So if we restate American revenues without the Pan Am Games, we have flat growth in the Americas, South America and US. So in total, organic growth is at 5.3, and without Italy and AEMS, we are at 5.9.

On the next slide number thirteen we give you some information about the order intake. On one side we show good organic growth on sales, and on the other side we show that we have good commercial dynamics with 11% growth of order intake, this is a positive sign for the future. Total book to bill ratio is slightly above one. What's interesting is that the book to bill of consulting is at 113%, and you know that for the consulting business, when we sign a contract it’s not for a few quarters, it’s not for a few years, it’s usually for the next few months. So book to bill above one shows a sign of recovery of consulting, a sign of good momentum in terms of growth for the future for consulting. System integration 114%, managed operations 89%, but clearly above last year book to bill. So, that’s a good momentum in terms of order intake, and shows some positive signs about the future.

On the next slide number fourteen we give you some information about headcount evolution. Let me point out a few things. First, attrition rate is contained at 14.3%. So it is one point below last year. We still have a pretty high attrition rate in consulting, but altogether, we are one point below last year in terms of attrition. Between January and March '08, the attrition rate decreased by more than two points to be at 13.9% of the month of March. With 2620 recruitments in the quarter, we stand at the same level as last year, which was a good year in terms of recruitment, and this level has been particularly high in system integration, thanks to close shore and offshore. Layoffs and dismissal were made mainly in the large countries such as France and the UK.

On the next slide number fifteen you have the detail of our staff by country. Total staff at the end of the quarter is slightly below 50,000 employees. Including Italy this is a net increase of 1.1% since December ‘07. Out of the 560 net staff increase, you can see that more than 40% were made in Asia Pacific and partly obviously in India. As far as the rest of EMA is concerned, the staff increase came mainly from Spain, including the build up of the close shore centre in Valladolid which is significantly cheaper than in Madrid, Barcelona and most of the locations in Europe. Our India staff ratio has been maintained at a level slightly above 10% at 10.4% at the end of first quarter '08, above the level reached in Q1 ’07, and you can see that we have decreased the corporate head count by about 14%.

On the next slide you have the details of the evolution of attrition from ’06 to ’'08 with a stabilised trend during ’07 and a decrease of the attrition starting this year. But this is, as I said before, a level of attrition in consulting which is close to 27% which we need to address.

Staff evolution on page 17, just to confirm that when you look at the speed between high cost countries and low cost countries in terms of head count, we break the 10% barrier in Q1, and we are on our way – as I announced – to move from 10% head count in low cost countries early '08 to 20% of head count in low cost countries share by the end of ‘09. This is the objective we maintain, and you will see an acceleration of our head count increase in India because one of the decisions which may seem an objective decision we took just a few months ago is not to be located just in Mumbai. But at the same time, by being located in Calcutta and opening a new centre, a campus in Pune early '09 with 3,000 seats. We believe it’s going to increase our capacity of hiring by having three locations and not being just in Mumbai. So, and I confirm that the staff increase net addition, between '08 and '09 will be mostly in low cost countries .

On consulting I have a couple of slides, 18 and 19, which confirm a few things. First, a slow down of the decrease. Now it’s only minus 3%, and the only countries where we have a decrease is the UK, and we have some countries with a double digit growth. By the way, what is really encouraging, the fact that the order entry level is really good, 12% growth in Q1 '08 compared to Q1 '07, and if you look at these three different countries, the order intake growth in France is 25%, 23% in Netherlands, 5% in Spain and Belgium, and -5% in UK. So, UK we still have work ahead of us, we changed the management, and I strongly believe that UK will deliver the turnaround we saw the last few months in France. So, we have at the same time a strong focus on recruitment because the growth will be also coming from recruitment. Utilisation rate increasing steadily at 65% March rate with UK gradually catching up at 62% in March '08 for an average Q1 at 61%.

So, on slide number 19, you have a list of actions we are performing. I am not going into detail with that, but just keep in mind two things – priority one, turnaround in the UK, priority number two, continue to even and better the situation in France, and keep the good momentum we had historically in Netherlands and in Spain, and also ramp up in Asia because we have the potential clearly, thanks to our deal with ChemChina to extend our consulting practice in Asia.

Next slide, we are moving to another subject and we told you at the end of last year that we had an agreement with the trustees on the pension in UK. We had the full agreement reached in UK and Germany. So, here you have a summary of the pension agreement reached in UK and Germany. You remember that we commented on that agreement at the end of last year. This has been finalised during the first quarter of this year, and I am glad to confirm that this will reduce our pension liabilities by €65 million which is slightly less than the amount announced in February due to the currency exchange effect of the Pound compared to Euro, and a higher discount rate of 75 basis points. Compared with a deficit of €179 million for the two schemes on December 31 ’'07 and taking into account both effects of liability decrease by €65 million and accelerated funding by €66 million, as well as the increase of the interest rates, the net position of these two UK funds is a surplus of €26 million as of the end of Q1. In Germany we also finalised at the end of Q1 '08 an agreement with the Works Council to convert more than 40 different benefit plans to one defined contribution plan this year. As a whole, the net actuarial position pension deficit,of the group has been dramatically reduced from €643 million as of January '06 to less than €50 million today after completion of the new deal agreement in the UK. And this has been achieved with a combination of market conditions on this country, securitisation of assets done in the Netherlands, and to be finalised under the agreement terms by the end of this year in the UK. €1.5 billion out of €2 billion assets will be secured on top of the company defined benefit schemes in UK and Germany capped on defined benefit schemes in Netherlands and this plus all the benefit schemes in Italy. It has been a tremendous job achieved by Finance organisation.

Net debt evolution on slide number twenty one. During the first quarter we decreased the opening net debt position by €34 million thanks to a strong performance in working capital, and despite the high level of CAPEX in Q1, which is expected to remain high in Q2 '07, but will be reduced in the second half of the year. This was clearly announced, and this is part of when we announced the extra or the exceptional €50 million CAPEX we would have this year, which would lead us to have around €300 million of CAPEX this year, and the €50 million being dedicated to rationalisation of data centres. The cash effect on Q1 '08 from the disposal of Italy was finally €40 million. So if you take out the exceptional items, compared with the first quarter of the last two years, the negative cash generation excluding disposal has been limited to €5 million in '08 compared to a negative cash generation in Q1 '07 of €69 million, and € 56 million in '06 . This is a major change, and this clearly demonstrates the focus of the company on cash generation and free cash flow in the future.

So, now let’s move to slide number 23 to give you some update on the transformation programme which is moving full speed, and as I said, we are seeing good strong and solid results in the different initiatives.

So let me start to comment a little bit on the industrialisation initiative, and the industrialisation initiative is critical for business since about 70% of our system integration business is fixed price or application management engagement. So I would like to provide you with some concrete information demonstrating that we are making significant progress. The first aspect with a strong impact on bidding phase, what we call the productivity database, this knowledge base of our project and of our performance is critical to size and cost of the projects we are bidding on. It will help us to be more efficient and to strike probably better margins in the future. This results in better competitiveness, better control for the delivery phase, lower risk margins of both fixed and price development projects on application management services. Having started in Q3 '07 as a preliminary design phase, we are currently populating the database with penetration targets of 60% of the applicable projects in the database by the end of 09. In Q1 '08 we are only at 5% of around 100 projects. Target for the end of this year is 500 projects analysed and in the database, so which means 30% penetration rate. So, we are going to move that, it takes time, and we have a clear target for the end of ‘09. The second aspect directly, now we deliver our projects, and more specifically the deployment of software development centres, and the deployment of common tooling. Both factors have a direct impact on our productivity. It means the amount of work performed by our staff measured in function points by hour.

The next slide, slide number twenty four, shows you some details in terms of where do we stand today and where do we fix ourselves in terms of targets for the end of this year, and for the end of '09. So software development in 19 centres are the key for organisational units to create economies of scale and centralisation. We are well advanced on making this factory approach rating organisation and in our way to work. Around 60% of the eligible staff are already in such units. The tooling shared service centre provides a stand up process of two platforms for projects in all factories. The first step last year was to choose the common tooling with the buying of all countries and set up the shared service centres. The buying on all countries for the common tooling and processes was done last year. You remember I mentioned that to the market, and we implemented the shared service centres. So tooling shared service centre usage currently covers already 2,000 users, which is more than three months ahead of schedule with a very steep adoption curve. Our productivity improvement is on track. One of the factors to lead our development costs on the works. Further rollout of SDMC, processes and toolings will lead to acceleration towards the end of this year. So, we are at full speed with clear and ambitious targets that we will achieve.

One slide number 26 I give you some information we have never given in detail, which is the share of near shore offshore ratio in the different countries. We have been telling you for months that there is a different perception by customers depending on the country. The level of acceptance by our customers are not the same regarding off-shoring, depending on the countries, and we have always said that Spain is late in terms of off-shoring acceptance compared obviously to the US, but also compared to the Netherlands, or even compared to France. So here on that chart you have in dark blue the penetration rate of, or the share of offshore by the end or when we launch the transformation programme, and you see on the dash red line the progress we have made between the launch of the transformation programme and today. So we have a share of offshore which has significantly increased in many countries, and in the US, nothing new. Like most of our peers in the US, we have had a significant share of offshore. But you see now in Netherlands it’s 17%, in the UK it’s 20%, in Germany it’s 13%, and in France it’s increasing from 1% last year to 6%. So, things are moving, and it’s going to continue to increase to reach an average for the group at 25% at the end of '09, and you have the objective for each country.

On the next slide, I'm not going to comment, but you have the objectives in terms of head count step by step with a background of the situation in '06, in '07, and the objectives we have in '08 and in '09 for offshore, near shore and close shore. Among the different initiatives of the group on slide 27, we confirm our move on consolidation, our mainframe activities in one mainframe centre, and we have made significant progress. At the end of '06 we had different mainframe centres in Europe with the main one being Germany, and that main one in Germany was operating about 12,500 MIPS. We brought to that mainframe centre in Essen for the Netherlands customers. We are on our way in '08 to bring the French customers, and in '09 the few remaining French customers. To basically in two years between '06 and '08, by decreasing the number of mainframe centres we will double the mainframe centre capacity and volume in Essen, with clearly an effect on the cost per mix. So that's a demonstration of the change we operate global delivery in the company.

A second example is on slide number 28 which is the optimisation of data centres. We plan to close down until end '09 the equivalent of 20% of our data centre space. So, we are going to close the smallest data centres, and clearly limit the number of data centres we have in the company. In '07 we have already achieved 40% of this target. Data centre extension required for additional business is also planned, and just for your understanding, in each country we focus on twin data centres and we rationalise and close down the data centres which have no critical sites, or where we have more than two or three centres in one country. So you see that between end of '06 and end of '09 we will decrease the number of square meters, but at the same time, we will continue year after year to significantly increase the volumes we operate, and basically one way to look at the gain of productivity is to look at the revenues generated by square meters. And between end of '06 and end of '09, the revenues we generate per square meter of data centres will increase by 30%. That’s productivity gain. So clearly these few examples demonstrate that while we generate more organic growth, while we are very dynamic on sales, we change the way we operate the company and we better prepare the company in order to improve the operating margin and the cash flow of the company.

The last point I wanted to cover with you is on slides 29 and 30, which is the purchase initiative. You know that a couple of years ago purchasing was spread all over the place, and even in the countries purchasing was not covered. All the purchase was not covered by the purchasing teams in the countries. So, we decided to put this in place, we decided to centralise purchasing, and we decided to really gain purchasing power in front of our suppliers by aggregating our purchases of the different countries in one pocket. So, we are making significant improvements. You have here a few figures about how fast we move in centralising and covering the purchasing by the purchasing teams, and you have here also the clear targets we have for the end of '08 and for the end of '09, and on slide 30 you have just a few examples, but let me give you a few figures, but it’s for example a few other ones. But just one example, just on hardware components for integration in Belgium terminals, €1 million savings. Storage in UK, 1.5 million savings for '08, and these are recurrent savings because on the transformation plan the costs are on-off, but the savings are going to be recurrent, and housing and logistics, we already said €3 million.

The last point before we talk a little bit about the outlook, distinctive offers, just to tell you that we announced the distinctive offers subject approach middle of December. We worked with the countries on their business plan on each distinctive offer. Clearly the objective is to generate more revenues, more growth thanks to the distinctive offers. So, we are well on track, we are moving full speed, and all the countries are totally aligned with this strategy and will benefit from that leverage. We won a few deals in Q1 around these distinctive offers. It’s on slide 33, and in China, that’s a major SAP deployment moving from the consulting deal to a major system integration deal. Electronic component management with ING in Netherlands, intelligent network with Vodafone, not only in Spain as it was in the past, but now also in Netherlands and Greece with full partnership of Eriksson, and telecom business reports with the major French telecommunication operators. You will find there are a few backup slides in the presentation. You will have details on all the different distinctive offers, but I'm not going to cover that, but we will give you details on the distinctive offers, and we plan to continue to update you on a quarterly basis as we do for transformation programme.

Then on slides number 35, 36 and 37, we give you a copy of some internal documents which are clearly stating the priorities for the group in ‘08. You have the priorities for the group in '08. You have the list of what the management board has defined with the executive committee as being the priority for the year we are following. So, organic growth, transformation plan, but on top of that, many other initiatives. Clearly this is a management team which is working full speed to transform the company and create value.

On slide 38, what I would like to just mention on that slide, which is pretty much detail, is the fact that the backlog coverage at the end of the first quarter for the full year forecasted revenues is three points higher than last year backlog coverage at the same time, and the to find is three points lower than last year. So, in order to achieve our objective for this year in '08 in terms of revenues and organic growth, we have only 15% to find compared to 18% last year. So basically what does it mean?

When I look at that slide number 39, Q1 revenue growth at 5.9%, strong other intake 11% growth compared to last year, better coverage compared to last year, well, I can confirm that the 4% organic growth, I feel comfortable with that objective. Outlook, no change. Clearly we confirm what we told you middle February that 100 basis points of improvement after transformation costs on the new scope for the operating margin rate, and we confirm that we will reduce in '08 by €100 million the net debt after dividend payments, the cash out for pensions in the UK and cash from the disposal for Italy and AEMS Exchange,. So the new debt at the end of this year should be in the range of €238 million to be compared with credit lines at €1.2 billion, which clearly demonstrates our strong financial resources which can help us for example to make acquisitions in the payment sector and help Atos Worldline to become the leader in the future, and that's one of our objectives, number one in the open market for payments. On top of that, I clearly confirm that I told you middle February, for 2009 150 basis points of operating margin improvement after operating costs of transformation programme, which would be in the range of €50 million in '09. So, leading to 7.1% operating margin rate in '09 after transformation costs.

Next slide forty one, which might be a little bit new for you is to give more visibility about what's going to happen in '09. Clearly my first priority, our first priority as a management board, was first in '07 and '08 launch the transformation plan, operate full speed the transformation plan, and at the same time, generate more organic growth. We are on track and we deliver strong results. On top of that, we have decided to develop the distinctive offers going to be an investment in '08, which is included into the additional 100 basis points of operating margin rates compared to '07, and should bring us some incremental growth in '09, '10 and '11. In parallel, we are willing to benefit from the potential payment platform consolidation due to the SEPA consolidation, and clearly Atos Origin has to position itself on the one side as a consolidator in Europe, and as I told you, we have the full flexibility and financial resources to dedicate to that move for Atos Origin. And second point, Atos Origin has to develop in some of the geographies, by organic growth, and clearly Asia is a platform where we worldwide can generate organic growth and we see some initial results in China. In parallel, we told you also that we make a few small medium size acquisitions for IT companies which may complement our geographies, our offering in some geographies, but they are not big acquisitions. I do believe that you cannot conform efficiently full speed a strong transformation programme and make at the same time a major acquisition or major merger. So, you have to move step by step, but it doesn't prevent us to make small acquisitions which can help us to develop our activities in some countries. We may also decide to expand in some geographies, and once again I can confirm that on top of the major European countries where we operate, and there will be no change of perimeter in that field in Europe, we will continue to operate in a few geographies where we can extract the strong double digit growth, geographies like Brazil, geographies like South America, geographies like Asia, geographies like, in the future, Middle East. I still consider to extend our activities in Middle East because I believe that places like Dubai and Doha are going to be significant markets in the future for IT services. The next step for me will start in '10 because my belief is that once we have implemented full speed efficiently the transformation programme, by the end of '09 we will have strong foundations for the company. We will generate a strong cash flow, we will have a good level of operating margin, so we could be back in the position of being a consolidator company in the IT service industry. But we have to move step by step, because as long as we don't have a strong foundation, and that's really the purpose, the objective of a transformation programme, it would be too dangerous to be a major consolidator and to make a major move. But we need to prepare this kind of move, and that's why I am telling you that we could envisage this kind of move in 2010, 2011, and we may start to think about some objectives while we transform the company.

And the last slide I would like to share with you is really to insist on the fact that we are here to create value for the shareholders. When you have a transformation plan, when we generate more organic growth, because organic growth creates value for the shareholders, we recover in the UK, the end result for that is the improvement of the operating margin rate, and that's clearly a way to increase the shareholder value. Therefore we improve the OMDA, we significantly decrease the magnitude of restructuring. I remind you that this year we will have around €100 million of cash out for exceptional restructuring. When we better manage our CAPEX, that will generate a strong increase of free cash flow by '010. So, that's value creation for our shareholders, and the first step for me to demonstrate that, and you know I've been mentioning that since the 1st of August, it's a dividend policy, and I can just reaffirm that I hope the shareholders are going to vote for the dividend payment at the general assembly of €0.40 per share, which is going to be the first dividend payment in the history of the company, and clearly that first dividend payment is the first one, and there will be year after year an increasing dividend payment. And I would like to move into a dividend policy which is going to distribute one third of free cash flow as of '010.

So, that is the end of my presentation, and now Eric Guilhou, Wilbert Kieboom, Gilles Arditti and myself will be more than happy to answer any of your questions.

Gweneal Giard – Netaxis

We have a question from the web cast. So, from Gweneal Giard from Natixis, can you elaborate on the level of hirings of near shore, offshore during the first quarter compared to figures at the end of Q3 and Q4 '07?

Yes, well, on this one it is quite difficult to compare on a quarter by quarter basis because you have specificities especially in India. And you know that for example in India we recruit a mix of young people coming out of university and experienced people, but with a higher share of young people. So usually we compare on a quota by quota basis, and what I can tell you is that compared to last year, we have an acceleration, a double digit close in terms of offshore hiring compared to Q1 last year. And there will be an acceleration of that hiring for a few reasons, the first one within the next quarter, and especially in Q3 and Q4. First because there will be recruitment from universities, and the second point is the fact that since we expanded from Mumbai to Calcutta and Bengalore, we increased the potential volumes in terms of hiring. Second point, we are currently building a campus in Pune of 3,000 seats, as I told you before, and I have not mentioned in my presentation Brazil where we decided to build a new centre in Curitiba, which is significantly less expensive than Sao Paolo. There will be 1,500 seats. So, we are moving full speed, and it's difficult to compare Q3 with Q1 for various reasons, but the point is that first we are growing compared to last year, in net addition, and I fully confirm the 8,000 head count in offshore close shore by the end of 2009 offshore and near shore.

There is on the web cast another question which is additional effect in the UK from ramp up of managed operations contracts signed in the second half of '07. There is no additional ramp up but what we have is a potential business beyond the same contract I started in Q1, and like the one in NHS Scotland, or the Ministry of Justice. So we have a potential upside, but it's not a ramp up effect.

One remark, also coming from Gweneal Giard: recent organic growth at 4% seems conservative.
Well, I told you, we have a good level of comfort, let me put it that way. I took the decision not to change our guidance, our outlook has not changed compared to what I announced middle of February. Clearly I do not see any sign today from customers of slowdown. I have not received any call from any customers or anybody in the company telling us I stopped a contract or I slowed down or postponed a contract. We don't have any signs. So that's why I feel comfortable with the 4% revenue organic growth.
NHS diagnostic, that was the fourth question of Gweneal Giard of Natixis: NHS diagnostic, do you have any risk of penalties? Well, on NHS diagnostic, you know, that contract where we did not implement and we accrued all the provisions last year. We have currently positive discussions with the Department of Health, but I cannot disclose further. .The relationship with the customer is very good, and we captured additional business on primary care with NHS in Q1, and we made a right off of the position in the accounts of '07. So, all the cleaning has been made, and we have a positive relationship with NHS. So, the answer is no.

So there is no further questions coming from the web cast, so we are going to take questions from the call.

Neil Steer – Redburn Partners, London

Yes, it's Neil Steer from Redburn Partners in London. Just a quick question, you went through the impact of the pension fund changes that you have made. Could you just clarify, having highlighted the balance sheet impact, what the net benefit to the profit and loss account will be, both in 2008 and 2009 please?

I think that the question is for Eric Guilhou.

Eric Guilhou

So, on the pensions you need to distinguish what we call the net actuarial deficit and the net accounting positions. So, on the net actuarial deficit, either recorded or not recorded according to the accounting rules, we have a decrease of €600 million over two years time from beginning of 2006 to the situation that we have as of today and as explained by Philippe, resulting from a lot of effects. In terms of accounting as compared with the end of 2007, we have a further decrease of more than €30 million with one part €65 million which comes from the end of liability due to the agreement that we had with the trustees, and which will be recorded as an exceptional profit within our operating income, and not within the operating margin. There will be a further reduction of €65 million in the second quarter with the funding that we do in the second quarter to restructure the pension structure. So overall, on the net actuarial deficit base, we have now nearly no more deficits on pensions in the group, and accounting wise compared with the end of last year, we have continued to decrease by more than €130 million the position.

Okay, I understand that, but so there is an exceptional credit that comes through the PNL this year, I understand that you will show that below the line, but in terms of the costs associated with these schemes that comes into the PNL, how does that vary this year and next year?

So, in terms of costs, for this year there is no major change. For the next three, five years to come, there is a remaining recovery plan on pension scheme to be done, and it means that from, I would say, three to five years from now, a significant part of the cash contributions that we do into the pensions, will be exited and we expect that will save €10 to €15 million of cash recovery after having done this three to five years recovery plan, as with the pension trustees. On the PNL point of view, we replace defined benefit schemes by defined contributions. The negotiations that we have had with the trustees in UK is that we have total defined benefit scheme going forward, and there is past liabilities which are exiting and which will be secured . We have improved defined contribution scheme to be competitive in the market.

Okay, and an unrelated question, on slide 13...

I just would like to add that all financial effects like discount rates or excess retail of assets are recorded in the financial line, and it's not recorded in the operating margin line in the accounts of Atos Origin. So, all financial fluctuations are not within the operating margin line.

Okay, and an unrelated question, on slide or page 13, you look at the book to bill ratio, and I can't remember whether you commented at the time, obviously managed operations, whilst the book to bill ratio has improved Q1 this year on Q1 last year, it is still below 100%. Is that just seasonality, or is there still...?

Yes, there is a lot of effects of seasonality because usually customers want to go to outsourcing, and for new customers they put that as part of their budget process. And so there is a, if you look at usually in the last years, there is a significant level of other interests in the first quarter.

Philippe Germond

Yes, remember in Q4 the number of managed operation deals which was signed, and by the way, the same in Q4 '06. So, it is normal, there is nothing exceptional. The good point is that even if the similarities, it is usually low in Q1 for managed operations. We are 18 points above last year.

Eric Guilhou

And the total duration on the managed operations contract is still up to 16 months. So, the average over the past year is a little less, but we still have contracts with a 16 month duration.

Okay, thank you very much.

Philippe Germond

One point I didn't mention in slide number five, on the new deals we signed, we don't give you all the details of the deals, but on system integration the deals are between six and thirty six months, and for managed operations, it's up to five years. So we are building a stable growth for the future.

Thank you.

Patrick Standaert – Morgan Stanley London

Hi, thank you, it's Patrick here from Morgan Stanley based in London. A couple of questions, if I may. The first one is on the new contracts that had already an impact on Q1 revenues, the one that you've signed. How much are there in terms of margins, if at all?

Philippe Germond

Well, I can answer to you Patrick, they are not dilutive. So, another way to tell you that is we are not getting new orders and a strong momentum because we are cutting prices, because keep in mind that at the same time we commit for a clear improvement of operating margin. It's just a question of being competitive, being credible in the market, and being active in terms of sales and order intake. So, no dilution on the margin due to these contracts.

Okay, thank you. On the pipeline, you used that one point to give the size of the pipeline. Could you give us the weighted pipeline, if it's possible, and how it compares?

Well, I will give you some indication of pipeline because we give you on chart number 38, the pipeline is today about 13%, 13% of objective by the end of this year revenues.

Is that the weighted one or the un-weighted one?

That is weighted. . So it's a weighted pipeline because it wouldn't make any sense to have a un-weighted pipeline to be compared with our forecasted revenue for full year. So, you can deduct from that slide that since we planned to have as an outlook or guidance, if we have confidence about that 4% organic growth, that our pipeline is about 4% higher than last year.

Eric Guilhou:
Our pipeline was €2.1 million in December and close to €2.3 billion at the end of March.

Philippe Germond
Yes, so that's precise, I said recently that what's interesting in our pipeline, and that's probably a change compared to the last few years, we are not relying on one or two mega deals. It's pretty well balanced between medium and large size deals, and there is no mega deal in the pipeline.

You mentioned last year that you were actively discussing in doing potentially two deals with respect to SEPA. Is there any delay coming in there? Is the discussions or the fight that you have with two of your shareholders having any impact in closing any potential deals here? Can you highlight a bit?

Well, I haven't said recently we are going to make two deals. What I have said is that we have different opportunities, we are currently having discussions, and what I would like to do is to achieve one deal before the end of this year. And it might be a good consolidation, and may put us even in a better position worldwide. I am just going to be clear, any uncertainty on Atos Origin environment doesn't favour negotiations or their intake. So clearly there might be at least one negotiation which has been delayed, slowed down, because of the actual situation of the company. I can tell you also that almost on a daily basis I have the CEO of one of our customers, I explain to him the situation, I give him my assumption about the evolution of the group and I am very confident about the future of the group. And all the major deals we signed in Q1, I had to pay a visit to explain what's happening. So I am dedicating a lot of time to customers to ensure a good level of order intake, even if there aren't the actual situations.

Maybe a last question for Eric, the working capital improvements that you have discussed, where is this mainly coming from? Is it the DSOs?

Eric Guilhou:
It's mainly cash collection, yes.

Okay, thank you.

Philippe Germond
We fixed quarterly targets to the bonus scorecard of the people.

Yeah.

Philippe Germond
What's mentioned by Eric is really important. We do not measure the objective in terms of net debt in the context (?) of our managers or the evolution of the cash… of the bonus of the managers, based on year-end of figures (?). We do that on average, and we look at the figures at the end of each quarter. So it puts pressure, not just at the end of the year, it puts pressure all during the year.

Was there a specific pressure this quarter for cash collection, or is this in line with what you're doing quarter-to-quarter, month-after-month?

No, absolutely not; we leave a situation in 2006 where we had a big deterioration of our cash flow over the years, and so we implemented policies with the group finance, the CFOs, and the CEOs of action plans for cash driven actions on a quarterly basis, which is now entering into a normal phasing.

Next stage that we have which are not yet integrated into our process is that when the purchasing organisation operates, I would say, on a normalised way after the start-up which has been implemented in October last year, so which is just six months from now, will help us with the suppliers management to improve the structure of the DPO. This is not factored here today, and this is a potential for the future.

Let's remember anyway that our working capital at the end of last year were negative. So we are running operations with a negative working capital in balance sheet and our objective is not to have our yearly cash flow or quarterly cash flow being strongly affected by change in working capital, but to get potential for strong improvement of cash flow by restoration of working capital which has been done in the past already. Besides we benefit through our business structure with 65% of our recurring revenue of being able to have structurally speaking lower working capital than our peers, on balance sheet.

Eric Guilhou

Just a small detail, we as a management board, we have a weekly information about the cash position, so that's clearly part of the permanent information, or KPIs we follow and review with the countries.

Thank you very much.

Elizabeth Buckley - Arete Research Rayliegh NC

…from London. You mentioned, Philippe, that you've not seen any signs of slowdown As you look into your pipeline, that means you've not seen any sign of project postponements or delays for economic reasons?

Philippe Germond

Yeah, clearly, we do not see any slowdown. I didn't pay too much attention to SAP results this morning, but I had a short conversation this morning for operational reasons, with Leo Apotheker, and he told me that he may have seen some slowdown in US where we are not exposed, and he is still seeing a strong momentum in Europe and in Asia.

For the time being, we do not see any effect of the potential economic slowdown in the world on our industry. Or if there is a slowdown in our industry, and when I look at our Q1 results, and when I look at the order intake, it means that we are gaining market share, and does demonstrate that we are even more competitive than before.

You did intimate that you'd seen some kind of delay due to the ongoing shareholder pressure.

No, I've not seen delay. I've seen delay in the negotiation for an acquisition in the payment systems, but I have not seen delay in order intake. But what I have to tell that I need to have discussions with some customers to ensure about the stability and the future of the Group in order to ensure multi-year contracts with these customers. And I need to invest a significant part of my time, but it’s normal for a CEO of a company to be close to customers, but these days I need to spend time to explain that I strongly believe in the stability of the company. I strongly believe in the good outcome of the strategy, and I think that Q1 results clearly demonstrate that we are moving in the right direction.

Maybe I think Wilbert wants to make a comment.

Wilbert Kieboom

Yes, Philippe. What you also need to understand is that Atos Origin has a very resilient economic business model, because if you look at the revenue stream, over 50% is recurring revenue, the application management maintenance, even in SI, and also clearly

MO business, which has a high level of consistency, even in economic difficult periods. If you go back to the, let's say, millennium period where a lot of companies were getting into difficulty, Atos Origin continued to perform on a consistent basis. So we are not really that concerned about economic fluctuations as such.

And just on… do you have any large contracts up for renewal this year?

Philippe Germond

Well, we have come into renewals. The key point is that we reviewed that precisely that over the next three, four years, there are not a specific period or specific quarters where you have a massive number of renewals which would a penalty, or an additional pressure on our margin. Renewal is permanent. I mean, every quarter, we have renewal of contacts. This is normal life.

If you look at managed operations and you exclude Atos Worldline from that, it looks like that went backwards. Were there contract renewals affecting those trends?

Not backwards…

There will be more renewals in Q2 in managed operations than in Q1.

Philip Germond

Managed operations, just as a reminder, the service line managed operation plus Worldline, we had a 6.2% organic growth.

Sure.

Worldline was at about 10%, and what I said that the rest, which is managed operations, were slightly above five 5% growth. So it's pretty good 5% growth.

Okay. And then just finally, it looks like your offshore ramp up plans are focused primarily on your SI businesses. What are your plans for offshoring, in particular, some of the new managed operations capacity that you're adding? Could we see you accelerate offshoring in the outsourcing area as well, maybe over and above what you're showing on slide 26?

Philippe Germond

Well, clearly, in managed operations, we have offshoring activities. It's on top of the SI figures we give you for offshoring. But it's clear that the share of offshore in managed operations is going to be lower than the share in system integration. I mean, you cannot offshore a data centre. You can always… technically, you can offshore data centre. You could put the data centre of BNP Paribas, or Société Générale, in Bangalore. But I'm not so sure that the customer would be happy about that, because the risk is not minimum. Example of risks that are critical: you take the cable between here and Europe that was cut at some point of time few months ago in Egypt. I mean, these are mission criticals, managed operation activities, and just to save a few hundred thousand euros, or a few million euros, you have huge risk of penalties linked to not meeting the SLAs, which is going to be huge.

So that's a risk for limited savings, and it's clear that headcount costs in managed operations, share in global costs, it's much more in managed operations than system integration.

On top of that, you have laws in Europe which prevent you to outsource, to offshore data centre management, because there is laws about data protection. And there are not too many countries in Europe where you have data protection laws. You have Europe, Argentina and Australia. So if you want to offshore your data centre in Morocco or in India, we are not allowed to by law. That's a point.

Which is the case for US. In US, they can… they have laws which allows some of the data, personal data, to be managed from offshore, which is not the case for the European laws.

Philippe Germond

So just to be precise, today we have about 1,100 heads offshore in managed operations. Objective for the end of '09 has not changed compared to what we have announced in the last few months. The objective end of '09 is 2,000 for managed operations offshore staff.

Thanks very much.

Laurent Daure - Kepler, Paris

Yes, good afternoon. It's Laurent Daure from Kepler in Paris. A few questions. The first is, you touched briefly on France and the good trend in revenues, but could you give us more information on the restructuring? And one of your targets was to move up the margin of the SI business in France, so how do you see… how fast is the improvement?

Eric Guilhou

Okay, so as far as the restructuring in France is concerned, are you aware that at the end of that year we explained that we got an agreement with the working council to vote a plan for 450 to 600 people, both in terms of people leaving the company, mobility, geography or training, so there are many, many aspects. As far as the restructuring is concerned, I would say that 20% were done at the end of last year, 20% are done at the end of Q1 and the remaining will done in Q2. You need to remember that it is not an issue of overcapacity. What we are tackling in France was an issue of skilling and positioning a pyramid of age of the people, a pyramid of skills, and repositioning the people from front office centres in Paris to back office centres in the cities and in the regions. So, we haven't put at the end of last year a significant recruitment plan to replace the same numbers of people with new recruitments. That's why the plan is spread over two quarters so as to be able to have the capacity and this is still on track today. and to a full replacement of the staff being restructured, or being repositioned by new recruitments. And this will be done in Q2. The effect will be an effect on mark up and that will be progressive from the second half of this year.

And do you already see in the first quarter an improvement of the profitability of this business? Because if I remember well, it was more or less flat, break even plus. So, is it already improving or do we have to wait a few more quarters?

Well, Laurent, we do not communicate on margin, on a quarterly basis. What I can tell you at that stage is that we are fully in line with the objective we set to the company in terms of the 100 basis points improvement in ’08 compared to ’07.

Okay. I have another question. Are you giving guidance on margin in AEMS and Italy? What could be the contribution of the nine months of AEMS exchange and the one month of Italy to adjust our forecast on a statutory basis on the level?

Of 2007?

For 2008. You were going to consolidate () over nine months, and you consolidated Italy over one month. So, and you gave a guidance of 5.6 margin, but this () the contribution for () in Italy. So, just to reconciliate the figures.

Yeah, but by the way, that was a guidance we already gave when we were announcing the February objective. That was restated without Italian. I’m not going to disclose you at that stage what the bottom line of Italy one month and the bottom line for AEMS exchange for nine months. Today, we closed the disposal of Italy but there is no change of outlook, we are exactly the same outlook as we had before the middle of February, which is regarding 100 basis points improvement, based on future scope which does not include the months of Italy and nine months of AEMS Exchange. It does include capital market and clearing activities, which have a very low margin and it’s clearly to improve the margin over the next two years of that activity.

Okay. My last point is, you clearly stated that you saw no slowdown in the industry, but could you be a bit more specific on the last feedback you got from your () in the banking area?

What was said by Gartner is that there is no slowdown in the IT industry. It’s not a matter by sector.

But it was the same thing with the large banks, you have not noticed anything special in recent weeks or months?

Well, you know investment banks for example, is only 5% of our revenue and more than 50% of that is media contract managed operations. And I tell you, for the time being we do not see signs. Maybe we are doing a better job than the market, but the basis points is 5.9% organic growth Q1, 11% growth in ().

Okay, thank you very much.

You’re welcome.

Mark Bryan – DB, London

Hi, good afternoon, it's actually Mark Bryan from Deutsche Bank in London. Most of my questions have actually gone, but what I will ask you though, it's a bit of a continuation I'm afraid on sort of demand backdrop area. What you haven't spoken about too much is pricing. I'm just wondering if you've seen any instances at all of softening prices, particularly given on your order intake, there's some very impressive growth numbers there, and I'm just wondering actually if you've had to do any discounting to drive share gains at all.

No, Mark. I confirm that we are not at adding that good, strong commercial dynamics, thanks to cutting our prices. I'm not going to buy new contracts or buy market share by diluting our operating margin. I can tell you my priority is sharehorder value, and in order to generate more sharehorder value, it's improving the operating margin, improving the free cash flow. I'm never going to follow a strategy to have, to buy growth and to have a diluted operating margin growth. I'm looking for profitable organic growth, and I can tell you that the order intake we have is clearly in line with our growth margin objective. Delivering our objective in operating the margin in the right improvement we had for '08 and '09, because you saw on the slide that most of the orders we took are multi or contract orders, if we would take non profitable orders just to show up a growth and impress the market, it would put us in a very bad position for margin improvement in '09. We do not see pressure on pricing because we are still in market with shortage of resources.

Okay. Yeah, good numbers. Well done. Thank you.

Rajesh Bala – Credit Suisse, London

This is Rajesh Bala from Credit Suisse. I just had a couple of questions, one is on attrition, given attrition across different service lines, but would you give somewhat high admission levels in your offshore operations particularly India? The second question: you said revenue growth for Atos Worldline was 10% in Q1, what are the margins on this particular business and what is the outlook for the Worldine revenue growth rate for the full year?

Okay. First on attrition in India, we are like our peers. Attrition is just slightly above 20% in India. That's a fact. Maybe if there are continuous or if there is a slow down in the US market, attrition may slow down on the Indian market, but as you know we are very less exposed to the US market. But attrition clearly on our side is in the average of the market in India, nothing special. On margin for Worldline, I mean, we do not communicate on margin by service lines and once again maybe a link to the previous questions, is that our growth is a profitable growth. I can confirm totally that the growth we have with Worldline is not a dilutive growth. We are not buying growth to impress the market. It's a fact, we are competitive, we have a good service offering and since we are taking very seriously organic growth, we grow, but without buying back share, without buying customers, it's a good profitable growth we are generating everywhere in the company, including world line.

Thank you.

Closing Comments

I think it was the last question. Thank you very much for your time, we really appreciate it and the next step is going to be the general assembly and the next step is going to be the H2 results end of July.

Thank you.

Bye-bye.